

Message Text

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C O N F I D E N T I A L CAIRO 11740

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E.O. 11652: GDS
TAGS: USEGJC EAID
SUBJECT: ASSISTANCE TO EGYPT: IMF IS OUT

REF: CAIRO 11293

SUMMARY: EGYPT HAS ESSENTIALLY CLOSED DOOR ON POSSIBILITY OF MEAN-
INGFUL COOPERATION WITH IMF AT PRESENT TIME. DECISIONS REPORTEDLY
REACHED AT HIGHEST LEVEL HAVE REJECTED CONDITIONS EXPLICITLY PLACED
ON ASSISTANCE, AND DELEGATION WILL RETURN TO WASHINGTON TO SEE IF ANY

THING CAN BE SALVAGED (PERHAPS OIL FACILITY). THEIR VIEW IS THAT
PRESENT SERIOUS SITUATION WILL GET WORSE, BOTH BECAUSE OF PROBLEMS
FACING SADAT AND EGYPT, AND BECAUSE NO ONE SEEMS TO UNDERSTAND
MAGNITUDE OF PROBLEM OR DANGERS IT ENTAILS. END SUMMARY

1. AT CLOSE OF IMF MISSION CONSULTATIONS WITH GOE, GUNTER AND
DICKIE CALLED ON AMB TO DISCUSS RESULTS OF THEIR EFFORTS TO REACH
AGREEMENTS PAVING WAY FOR PROVISION OF UP TO SDR 204 MILLION (\$245
MILLION) IN ASSISTANCE (REFTEL). THEIR REPORT WAS UNIFORMLY
DISCOURAGING, AND IT APPEARS THAT WITH POSSIBLE EXCEPTION OF OIL
FACILITY, NO OTHER FORMS OF SUPPORT CAN BE PROVIDED.

2. OIL FACILITY. LETTER FROM SHAFEI TO EX BOARD OF FUND HAS BEEN
DRAFTED BY MISSION MEMBERS, LAYING OUT STEPS GOE WILL TAKE IN ORDER TO

MAKE AT LEAST INITIAL DRAWDOWN OF SDR 20.2 MILLION (\$24 M) ON
FACILITY, WHICH HAS TOTAL POTENTIAL OF SDR 40.3 MILLION. LETTER IS
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LARGELY PAPER EXERCISE, PERMITTING IMF TO PROVIDE ACCESS TO FACILITY

WITHOUT MUCH REAL HOPE THAT GOE WILL ACTUALLY IMPLEMENT REQUIRED MEASURES: OIL CONSERVATION POLICY, CEILING ON DOMESTIC CREDIT, INCREASE IN INTEREST RATES, NO GROWTH IN GROSS RESERVES SINCE END 74. DICKIE EXPECTS APPROVAL FOR FIRST TRANCHE WITHIN ABOUT ONE MONTH. (REFTEL INCORRECTLY REPORTED TRANCHE HAD ALREADY BEEN DRAWN.)

3. COMPENSATORY FINANCING. DATA ON EXPORTS HAS NOT YET BEEN FULLY ASSEMBLED, BUT IMF REPS CAUTIONED THAT EVEN IF A SHORTFALL IS PROVEN, A LARGER STUMBLING BLOCK REMAINS. SINCE EGYPT RECEIVED SDR 47 MILLION (\$56 M) FIRST TRANCHE IN 1973 UNDER THIS PROGRAM, SECOND TRANCHE CAN ONLY BE GRANTED IF MISSION CAN REPORT TO EX BD THAT GOE "IS COOPERATING WITH FUND IN SOLVING BOP PROBLEMS". SINCE IN VIEW OF THEIR EXPERIENCES NEITHER GUNTER NOR DICKIE FEELS HE CAN MAKE SUCH A STATEMENT, THERE IS LITTLE LIKELIHOOD AT PRESENT THAT ADDITIONAL SDR 47 MILLION CAN BE MADE AVAILABLE.

4. STANDBY. THIS ONE SEEMS CLEARLY OUT OF QUESTION. CONDITIONS IMPOSED BY IMF FOR THIS SDR 70 MILLION PLUS PACKAGE WERE REPORTEDLY FLATLY REJECTED BY SATAD WHEN PRESENTED BY MINECONCOOP SHAFEI. THEY ARE A DIFFICULT PROSPECT WHEN SEEN THROUGH EGYPTIAN POLITICAL EYES: EXPANSION OF PARALLEL MARKET TO INCLUDE ALL BUT SUBSIDIES AND STRATEGIC GOODS ON IMPORT SIDE, AND ALL BUT COTTON AND RICE ON EXPORT SIDE; ONLY GOVERNMENTAL CAPITAL TRANSACTIONS AT OFFICIAL RATE; PARALLEL RATE TO BE SHIFTED TO \$1 EQUALS 70 PIASTERS, VICE \$1 EQUALS 59 PIASTERS AS AT PRESENT. (OBSERVER WILL NOTE THAT THESE CONDITIONS LOOK SUSPICIOUSLY LIKE FUND POSITION OF EARLIER THIS YEAR, AND WHICH RESULTED IN VIRTUAL EXPULSION OF TEAM AND ENTRY OF IMF INTO LIST OF LOCAL DIRTY WORDS. UNITARY EXCHANGE RATE REQUIREMENT HAS BEEN DROPPED, BUT THAT'S ABOUT ALL.)

5. GUNTER AND DICKIE REPORTED THAT RECENT EXPANSION OF "OWN CURRENCY IMPORTS PROGRAM" TO INCLUDE ALMOST EVERYTHING (CAIRO 10874) IS ADDITIONAL POINT OF CONTENTION. PARALLEL MARKET SOURCES OF FOREIGN EXCHANGE HAVE BEEN DIVERTED INTO OWN CURRENCY IMPORTS, BLACK MARKET RATE HAS BECOME ALMOST OFFICIALLY RECOGNIZED, AND IMPORTS OF NON-ESSENTIAL LUXURY GOODS HAVE INCREASED. GOE REFUSED TO RECONSIDER CONFIDENTIAL

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IMPLEMENTATION OF THIS MOVE, BUT DICKIE SAID HE DID MANAGE TO GET IT DELAYED A FEW DAYS WHILE EFFORT WAS MADE, AND FAILED, TO OBTAIN HIGH-LEVEL DECISION TO KILL DECREE.

6. IMF TEAM NEVER GOT TO MEET WITH MINPLANNING, NEVER SUCCEEDED IN MEETING WITH GROUP OF CONCERNED MINISTERS AT ONE TIME, BOTH PROMISED BY SHAFEI, AND FEELS NET RESULT THEIR VISIT WILL BE LESSENNED VIEW OF EGYPT IN EYES OF FINANCIAL

COMMUNITY. SHAFEI WAS ADVISED IT WOULD BE COUNTERPRODUCTIVE TO HAVE FUND COME A SECOND TIME AND AGAIN RETURN WITH NOTHING TO BE ANNOUNCED. SHAFEI, HOWEVER, INSISTED EVERYTHING WOULD BE IN ORDER.

7. IN FACT, TEAM FELT THAT SHAFEI DID WHAT HE COULD, INCLUDING MAKING A PRESENTATION TO SADAT, WITHOUT SUCCESS, OF RUND'S POSITION. TEAM WAS ALSO CONCERNED AT LACK OF ANY SENSE OF URGENCY WITHIN GOE OF ECONOMIC PROBLEMS. IN ITS VIEW, NO ONE SEEMS WORRIED, NO ONE SEEMS PREPARED TO RECOMMEND HARD DECISIONS THAT ARE REQUIRED, AND DRIFT INTO POTENTIALLY DISASTROUS ECONOMIC CHAOS CONTINUES. FUND IS WORRIED ABOUT YEARS AHEAD.

8. COMMENT: WE SHARE THIS CONCERN. EGYPT BELIEF THAT ARABS AND, PRINCIPALLY, USG WILL PROVIDE WHATEVER SHORTFALLS EXISTS, REGARDLESS OF AMOUNTS, SEEMS TO BE ONE OF MAJOR FACTORS UNDERLYING EUPHORIA NOTED BY IMF REPS. AS AMBASSADOR HAS POINTED OUT, GOE IS LOOKING FOR A PERMANENT ECONOMIC "CRUTCH" AND VIEWS USG IN THIS LIGHT. WHEN IN DUE COURSE HARD REALITIES COME HOME AND DISILLUSION SETS IN, IT IS USG WHICH IN TYPICAL EGYPTIAN FASHION WILL RECEIVE MUCH OF THE BLAME. EGYPTIANS HAVE DIFFICULTY UNDERSTANDING THAT USG, LIKE OTHER DONORS, WANTS TO HELP EGYPT HELP ITSELF.

9. OUR EFFORTS TO GET IBRD AND/OR IMF TO SHOULDER BURDEN OF PERSUADING GOE TO ORGANIZE ITSELF ECONOMICALLY HAVE FAILED, AT LEAST FOR NOW. IT WILL BE UP TO US TO CONTINUE TO URGE ECONOMIC REFORMS ON GOE IN THE HOPE THAT SOONER OR LATER IT WILL REALIZE NEED FOR THIS. WE WILL KEEP TRYING, BUT IT WOULD HELP IF SOMEONE IN EGYPT AGREED THERE IS A REAL PROBLEM.
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